NEWSLETTER NK CORPORATE ADVISORY
Overview of Private Market investments in 2022

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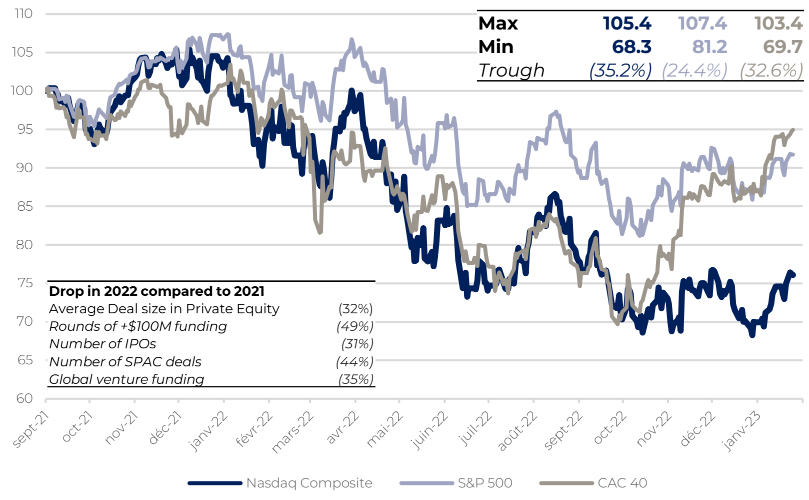
> *A continued shift in geopolitical and macroeconomic paradigms alongside the burst of the tech bubble in late 2021 should provide opportunistic situations for Private Market investments in early-stage and more mature start-ups.*

INTRODUCTION

2022 can seems like a terrible year for anyone who did not own shares in an energy company. From the horrific **war in Ukraine to record-high inflation, interest rate hikes** and **the energy crisis**, 2022 has witnessed the **most challenging macroeconomic environment since the 2008** global financial crisis, and it seems far from cooling down.
The bursting of the tech bubble has led to **lower valuation** expectations, **reduced investments** in early-stage companies, and an IPO market that has almost stopped.

Evolution of the Nasdaq, S&P 500 and CAC 40 (Rebased to 100 – Nov 2021 to Jan 2023)



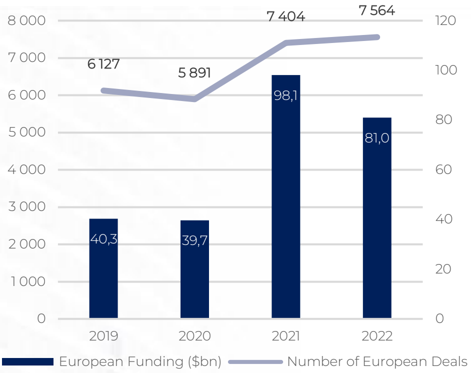
Sources: Refinitiv - CB Insight Past performance is not a reliable indication of future performance

For companies facing slower revenue growth and dwindling cash reserves, and which are reluctant to raise capital at a lower valuation, this means doing more with less. The pace of layoffs picked up in the second half of 2022, and it is likely to get worse in 2023.

Yet, the **European Tech** scene and long-term perspectives should allow investors to feel more **opportunistic and more optimistic** because real success for the sector is less about short-term valuations, and much more about talent, innovation and long-term company building.
Compared to some high volatility sectors which have experienced loss of momentum in 2022 such as crypto or the metaverse revolution**, European Tech should thrive in 2023 with positive trends in deep-tech, health-tech, net-zero, renewables and energy efficiency technologies**, and **fem-tech** to name a few.

FOCUS ON EUROPEAN TECH

Investors are sitting on **record amounts of cash to deploy** – an estimated $80 bn end of 2022 **in European venture and growth funds** alone. There are more than 160,000 startups in Europe, many of which are still hiring. In terms of the underlying strength of the ecosystem, far less has changed than can be believed.
Digital transformation is not going away. According to new estimates, the **EU alone will need to double its number of technology specialists and create 11 million new jobs by 2030.**



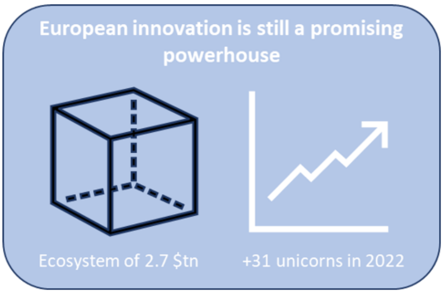
Sources: CB Insight

Investment in purpose built technologies has increased this year despite the market turmoil. While **total capital invested in technology has increased 3.1 times since 2018, investments in climate technology have increased 6.7 times** over the same period.

Whatever is happening in the markets, the fundamentals of the European Tech ecosystem have not changed.

The opportunity for European Tech is greater than ever.

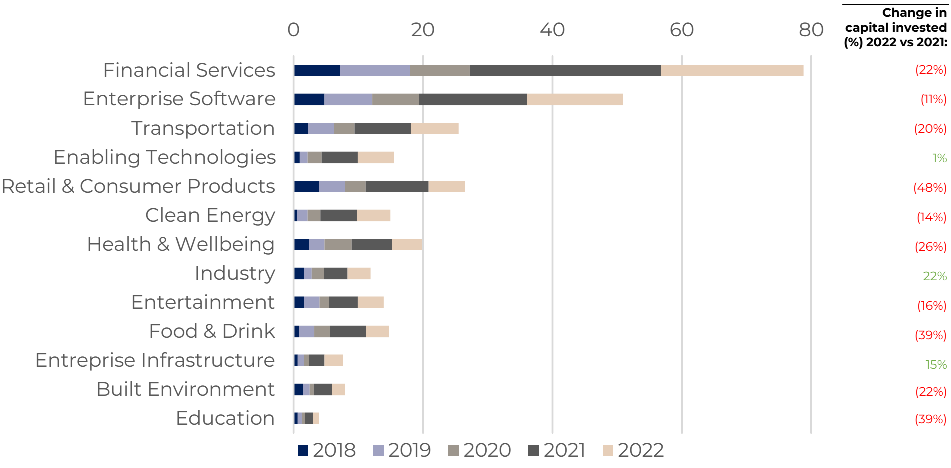
During a downturn, perceptions of opportunity and risk inevitably change. While a recession may affect consumer spending and business investments in the short term, **technology continues to shape the world.**



European Tech can seem vague, and a niche sector compared to its famous "big brother" in the Silicon Valley, but to put the **importance of tech to the European economy** into perspective: it has **contributed more to gross value added (GVA)[(1)] than the finance and insurance sectors combined. Tech GVA has grown twice as fast as non-tech GVA**, and a key factor in this sector is also having a positive impact: ESG, which is at the forefront of investors' minds. LPs and VCs indicate that this is a key concern when investing.

(1) GDP + subsidies on products - taxes on products

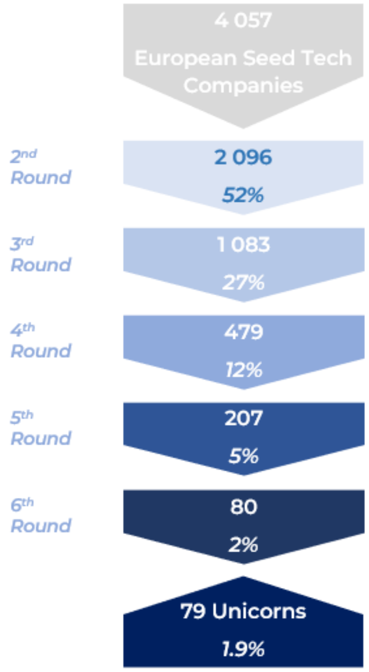
European Tech – Capital invested by Sector



Sources: Atomico – State of European Tech 2022 Report

Given the dense field and the many startups it has, it can be difficult to illustrate the conversion rate from startup to unicorn in the European tech industry.

THE UNICORN FUNNEL AND FUNDRAISING ROUNDS



Sources: Atomico – State of European Tech 2022 Report

This **Unicorn transformation rate of 1.9% is a significant increase from the 1.2%** in 2020, as many more unicorns have emerged since then.

Another important fact comparing Europe vs US, is that **European tech unicorns have a higher valuation compared to funding** when looking at their US peers. This might be due to European unicorns being historically underfunded and having to make do with less, a testimony to their capability to bootstrap whilst being on par with their US counterparts despite some capital constraints. It could also be a sign of **European Unicorns extracting more value from the same capital raised and burning less cash.**

However, nothing can be perfect, and the European Tech field also has a few slowing factors blocking its inspiring track record in 2022.

NEGATIVES IN 2022 FOR EUROPEAN TECH – FISHING FOR THE BOTTOM IN 2023?

First, the European Tech scene is not isolated or immue from the turmoil that hit everything in 2022 and will still have an impact in the medium term. **Everywhere tech companies suffered in 2022. Lower market liquidity continues to be a problem,** with fund outflows seen across Europe compared to global net inflows. More fundraising opportunities could be predicted if valuations normalize. **In 2023, the market could see a return to capital raisings and IPOs, although experts still believe the latter is unlikely before H2'23.**

Finding Talents is still tricky. As widespread layoffs have shaken the sector hiring remains a challenge for leaders. In 2022, more than 14,000 tech employees of European headquartered companies lost their jobs. Layoffs continued in January 2023, and **Tech companies around the world are announcing massive layoff plans, led by the FAAMG.**

There are also **a few "dehorned" unicorns,** a windfall for 45 other unicorns whose valuation has fallen below $1 billion during the year. **The total percentage of dehorned unicorns is now 16%** of all companies that had reached the billion-dollar milestone at some point.

After last year's record levels, **VCs are seeing less competition and a slowdown in capital deployment**. As a result, **cash piles have reached record highs**. While capital supply (or dry powder) reached a record high at the end of 2021, activity tapered off in the second half of the year as investors committed less capital.

Finally, a last point, halfway between the bad and the good, which happened for this sector: **The total announced deal value in H1'22 was $35bn, down 49% from $69bn in the same three-quarters last year.** Nevertheless, activity seems to have **picked up again in the second half of the year,** with several sizeable transactions. The total value of closed deals **in H2'22 amounts to c.$75bn, up 16% compared to H2'21.**

POSITIVES IN 2022 FOR EUROPEAN TECH: DRY POWDER OF VC/PE AND SECONDARY MARKETS OPPORTUNITIES

First, **The Pool of European Investors is deeper than ever before**, even if VCs have slowed down their investments, they will help fuel the Net-Zero Transition. The tech community is uniquely positioned to help balance Europe's need for energy with its leadership in combating climate change through purpose driven investments and clean energy transition.

LPs play a vital role in the European tech ecosystem, with their sentiment and appetite to invest staying strong. **Almost a third of LPs say their appetite to invest in European venture has increased this year**.

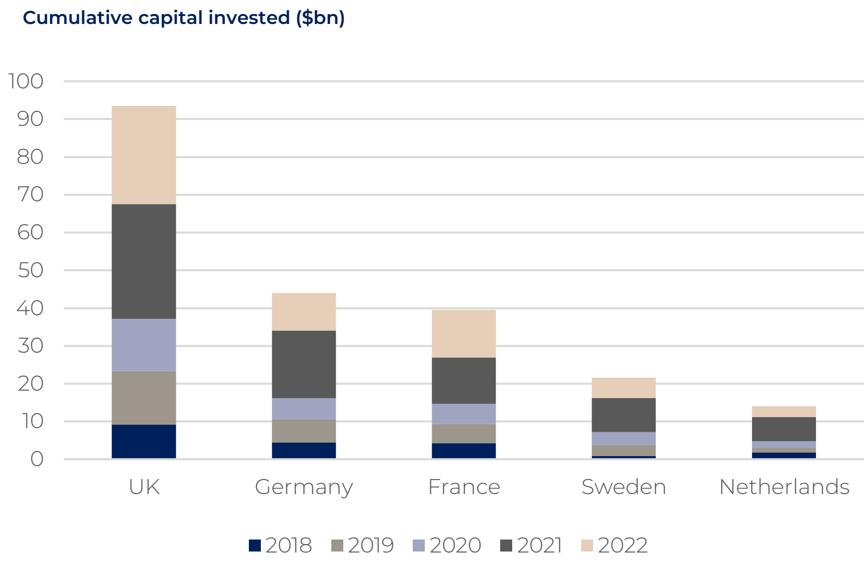
Funds are also flying high, despite overall macroeconomic trends, there has been a **flurry of sizeable funds raised over the last 12 months to invest in European tech.**

And finally, **European Tech Angels** are also vital to the European ecosystem.

Across every metric, Europe's capital markets are maturing. There are more investors of every type, at every funding stage, and from international as well as domestic funds.

And where can these opportunities be found across Europe?

The short answer is, **everywhere.** While the **UK, Germany, and France** still receive the lion's share of funding in Europe, distribution is slowly diversifying. **New hubs emerge,** cities like **Tallinn, Helsinki, and Milan** have seen promising growth in capital invested, growing at rates higher than the UK's.



Sources: CB Insight

CONCLUSION

On a European Tech Company's Journey from Seed Round to Unicorn, Business Models don't change outcomes. Company performances and results are virtually the same at different stages, whether it's a consumer, business or deep tech company.

Europe has now proven that it has the entrepreneurial, commercial and scientific talents to build world-leading companies that have successfully transformed banking, finance, healthcare and energy in recent years. Europe is still in the process of driving digital transformation and creating new opportunities everywhere.

Buyers have recognized this and increased their share of M&A activity in the tech sector since 2018. While non-tech companies are still looking to improve their capabilities and technology-enabled product offerings, cash-rich tech companies are increasingly scaling through M&A.

European buyers took the lion's share of M&A activity this year, with private and public European buyers accounting for 77% of announced deal value in 2022. Looking at the European M&A landscape by number of deals, the buyer profile has remained relatively constant since 2018. While private European buyers account for only about 30% of announced exit value, they're responsible for about 60% of all M&A deals – private European buyers are doing more deals, but of smaller size.

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